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February 7, 2006

Mr. Mark Askin
Strand Associates, Inc.
Suite 710
325 West Main Street
Louisville, Kentucky 40202

Re: McCreary County Water District
Pine Knot Sanitary Sewer Project

Dear Mr. Askin:

Commission Staff is in receipt of your letter of January 11, 2006 regarding the need for a certificate of public convenience for McCreary County Water District's Pine Knot Sanitary Sewer Project.

Based upon your letter, Commission Staff understands the facts as follows: McCreary County Water District proposes to construct 17,665 linear feet of force main sanitary sewer, 88 grinder stations, and appurtenances along U.S. Highway 92 in McCreary County, north of Pine Knot, Kentucky and along Kentucky Highway 1651 in McCreary County, east of Stearns, Kentucky. The estimated total cost of this project is approximately \$675,690. McCreary County Water District estimates 88 households to be served through the proposed project. The water district will not issue any evidences of indebtedness or securities to finance any portion of the construction nor does it intend to adjust existing rates for water service. It intends to finance the proposed project through a PRIDE grant of \$893,400. Rural Development will administer the proposed PRIDE grant. The proposed facilities will not provide wastewater treatment services in areas that other utilities are presently serving.

Your letter poses the following issue: Is McCreary County Water District required to obtain a certificate of public convenience and necessity for the proposed extension?

KRS 278.020(1) provides:

No person, partnership, public or private corporation, or combination thereof shall begin the construction of any plant, equipment, property or facility for furnishing to the public any

of the services enumerated in KRS 278.010, except retail electric suppliers for service connections to electric-consuming facilities located within its certified territory and ordinary extensions of existing systems in the usual course of business, until such person has obtained from the Public Service Commission a certificate that public convenience and necessity require such construction.

Administrative Regulation 807 KAR 5:001, Section 9(3) further provides:

Extensions in the ordinary course of business. No certificate of public convenience and necessity will be required for extensions that do not create wasteful duplication of plant, equipment, property or facilities, or conflict with the existing certificates or service of other utilities operating in the same area and under the jurisdiction of the commission that are in the general area in which the utility renders service or contiguous thereto, and that do not involve sufficient capital outlay to materially affect the existing financial condition of the utility involved, or will not result in increased charges to its customers.

Commission Staff is of the opinion that the proposed construction project is an ordinary extension that does not require a certificate of public convenience and necessity. According to its Annual Report for Calendar Year 2004, McCreary County Water District's Wastewater Division had net utility plant of \$11,015,985.¹ The proposed construction, therefore, represents an increase of 6.1 percent in McCreary County Water District's sewer utility plant. It will not require an adjustment of McCreary County Water District's existing rates for sewer service nor will it require the water district to issue any evidence of indebtedness. It does not appear that proposed construction will have a significant effect on McCreary County Water District's financial condition.²

While Commission Staff is of the opinion that no certificate of public convenience and necessity is required, it requests that McCreary County Water District advise Commission Staff in writing 7 days prior to the commencement of construction and when 50 percent of the proposed project is completed. It further requests that McCreary County Water District provide Commission Staff with a copy of the "as-built" drawings and a certified statement that the construction has been satisfactorily completed in

¹ Annual Report of McCreary County Water District to the Public Service Commission of Kentucky for the Year Ending December 31, 2004 at 2.

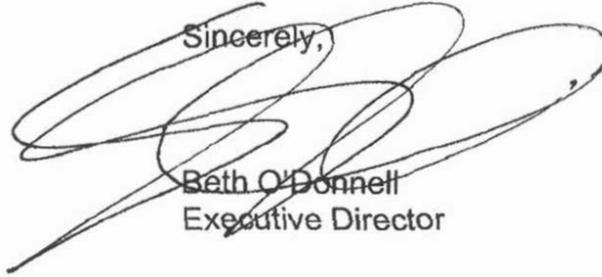
² Assuming a service life of 20 years for the proposed facilities, McCreary County Water District will incur additional depreciation expense of \$33,785 annually. Assuming the addition of 88 customers, each of whom has a monthly water usage is 5,000 gallons, the proposed project will generate additional annual revenues of \$21,120.

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accordance with the contract plans and specifications within 60 days of the substantial completion of the proposed construction project.

This letter represents Commission Staff's interpretation of the law as applied to the facts presented. This opinion is advisory in nature and not binding on the Commission should the issues herein be formally presented for Commission resolution. Questions concerning this opinion should be directed to Gerald Wuetcher, Assistant General Counsel, at (502) 564-3940, Extension 259.

Sincerely,

A handwritten signature in black ink, appearing to read "Beth O'Donnell", is written over the typed name and title. The signature is stylized and somewhat illegible due to its cursive nature.

Beth O'Donnell
Executive Director